

CITY OF FIFE
Pierce County, Washington
Special Audit
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. City Officials Should Establish Better Internal Control Procedures For The Municipal Court

Our investigation of the City of Fife Municipal Court for the period of January 1, 1993, through December 31, 1993, revealed the existence of internal control weaknesses. These circumstances are described below:

- a. The former interim court administrator was responsible for the daily bank deposit of all court funds received. Cash and checks received at the court on December 10 and 14, 1993, in the amounts of \$5,550.48 and \$3,496.15, respectively, (including \$3,497.52 in cash) were held off-site by the administrator without the knowledge or permission of city management. The administrator returned the funds to the city intact on February 1, 1994, during the course of our investigation. She had not been employed by the court since December 31, 1993.

Further examination of the cash receipt records and bank statements for the period revealed that cash receipts were frequently held for up to a month before being deposited into the trust checking account.

This violates the provisions of the Washington State Constitution, Article XI, Section 15, which requires the immediate deposit of funds with the treasurer or other legal depository. In addition, any delay in the deposit of funds results in increased risk of loss of public funds due to theft or carelessness and aggravates problems arising from checks with nonsufficient funds.

- b. The administrator retained possession of the trust checking account blank checks, 1992 check register, bank statements, and cash receipts records subsequent to her employment with the municipal court. She continued disbursing funds from the trust checking account and accessing the municipal court's computer system in order to transact business on behalf of the municipal court without the knowledge or permission of city management through at least January 20, 1994. At management's request, a portion of the documents were returned on January 27, 1994, and the remaining documents were returned during the following week.

City business should not have been conducted by a nonemployee for the following reasons:

- (1) The administrator lacked authority to transact business for the City of Fife subsequent to her employment termination date of December 31, 1993.

(2) State law requires the City of Fife to safeguard assets and maintain adequate accounting records. Business conducted and records maintained off-site by a nonemployee without the knowledge, permission, or authority of city management increases the city's susceptibility to errors and losses of all kinds and threatens the integrity of the accounting records.

- c. Subsequent to December 31, 1992, no manual check register was maintained for the trust checking account. Consequently, bank reconciliations and reconciliations to the bail pending summary ledger were also not being performed. Failure to perform these functions made it impossible to determine the cash position of the trust checking account and to detect errors or irregularities in the regular course of business.
- d. The trust checking account was established with an option that precluded the return of cancelled checks to the city with the bank statement. Selection of this option prevents adequate management review and increases audit costs because copies may have to be ordered from the bank for audit purposes.
- e. The administrator was routinely responsible for incompatible accounting duties without adequate oversight by city management. These duties included bank deposits, bank reconciliations, cash disbursements, data entry of most transactions to the computer system, and all accounting reviews and reconciliations applicable to the court.

These conditions existed and were not discovered by city management in a timely manner due to inadequate separation of duties and a lack of management oversight.

We recommend that city management review and improve its controls over the municipal court. At a minimum the following procedures should be implemented:

- a. Court receipts should be deposited daily.
- b. Management should develop and implement policies regarding removal of city documents and funds from the premises by employees.
- c. The court should maintain a manual check register (in addition to the one on the computerized DISCIS system).
- d. All checking accounts should be reconciled monthly by an individual that does not have signature authority on the account. Discrepancies should be reported to a designated individual in city finance.
- e. The bail pending summary ledger should be reconciled to the trust checking account every month.
- f. All checking accounts should be established so that the cancelled checks are returned and filed with the bank statements.
- g. Incompatible functions should be separated.

We also recommend that the responsibility for oversight functions for court activity be clarified and a system of periodic management review be established and implemented.